

Morgan Stanley & Co. International
plc+

Michael Alsford

Michael.Alsford@morganstanley.com
+44 (0)20 7425 3016

Theepan Jothilingam, CFA

Theepan.Jothilingam@morganstanley.com
+44 (0)20 7425 9761

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Industry View
Attractive

Oil & Gas

UK E&P Informer - 1st Edition

Catalysts, valuation metrics and M&A database.

This is the first edition of a new product on the UK E&Ps, which we will publish periodically, to highlight the key short-term exploration and operational catalysts in the sector, provide a detailed analysis on valuation, along with a comprehensive M&A database tracking recent deals in the sector. We will also look to discuss key themes in the sector.

M&A risk has increased at current valuations. We have run valuations for the group on “bid scenarios”, assuming the forward curve for the next four years and a long-term oil price of \$70/bbl – an appropriate price deck used by the industry when assessing M&A deals. These scenarios suggest around 20-25% upside for the sector. If we assume a lower discount rate of 8% (from 10%), a reasonable assumption for a large cap or NOC in our view, this upside increases to 30%. We see the greatest risk of M&A for companies that have high quality assets that are producing or are close to production. Cairn returns the highest upside under our bid scenario.

Exploration catalysts are front-end loaded in 2008.

The next material wells are Tullow’s Odum well (Ghana) and Ngassa well (Uganda), Soco’s Prospect “E” well (Vietnam) and Dana’s Rinnes (UK) and West El Burullus (Egypt) wells. Recent exploration success in the sector has outweighed the wider concerns in equity markets, as seen recently with further newsflow from BG and Galp on Brazil and Oilexco in the UK.

Valuations remain attractive – strong fundamentals.

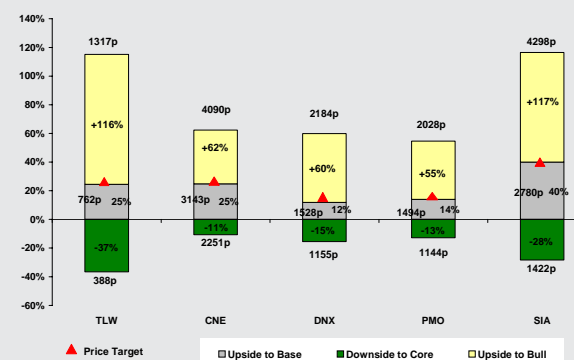
Despite current volatile share price performances, the strong fundamentals for the group remain unchanged: (1) Oil prices remain high and there is a risk of further upgrades to consensus medium and long-term oil prices; (2) Exploration activity levels are picking up following a lull in newsflow over the last few months. We think the group should outperform the sector and wider equity markets. Our top picks are Tullow and Cairn.

UK E&P Informer – Contents

	Page No
Key charts & Short-term catalysts	2
UK E&Ps – In Depth	3-4
Moving Parts	4
Sector Performance	4
Key Catalysts Cheat Sheet	5
Exploration Activity Timing Analysis	6
Valuation – Key Metrics & Analysis	7-10
M&A Multiples	11
Macro Summary	12

Exhibit 1

UK E&P: 25% upside to base case valuations



Source: Morgan Stanley Research estimates

What's Changed

Dana

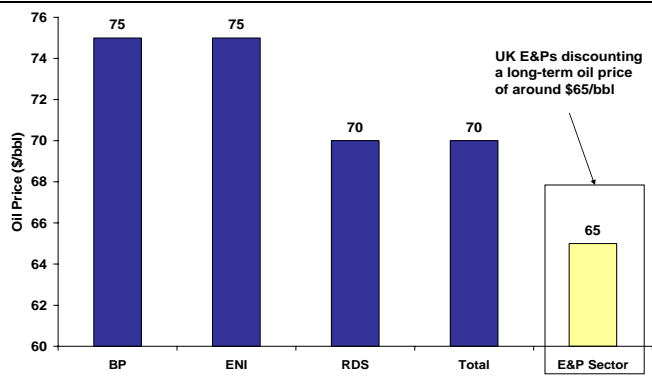
Price target to 1530p from 1545p

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UK E&Ps – Key Charts and Short-term Catalysts

Exhibit 2

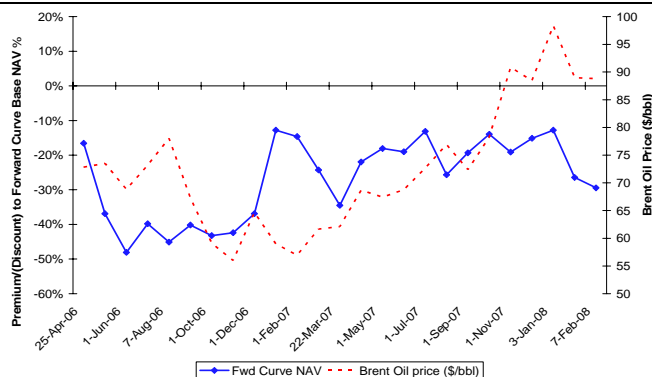
UK E&Ps discounting \$65/bbl versus Cash Breakeven in 2008 of Large Cap Oils at \$70-75/bbl



Source: Morgan Stanley Research estimates

Exhibit 3

E&Ps trading at 30% discount on the forward curve



Source: Bloomberg, Morgan Stanley Research estimates

Exhibit 4

Key Dates to watch in Q1 08

Timing	Company	Prospect/Event
mid-Feb-08 (this week)	Tullow	Odum (Ghana)
mid-Feb-08	Soco	Prospect "E" (Vietnam)
end-Feb-08	Dana	Morgan (UK)
end-Feb-08	Dana	Scolty (UK)
end-Feb-08	Cairn	Hatia (Bangladesh)
end-Feb-08	Dana	FY07 Trading Update
early-Mar (TBC)	Soco	FY07 Results
12th Mar	Tullow	FY07 Results
13th Mar	Premier	FY07 Results
31st Mar	Cairn	FY07 Results
end-Mar-08	Tullow	Ngassa (Uganda)
end-Mar-08/Apr-08	Dana	West El Burullus (Egypt)
end-Mar-08/Apr-08	Dana	Rinnes (UK)
end-Mar-08	Premier	NW Gemsa (Egypt)
end-Mar-08	Premier	Monte Cristo (Philippines)

Source: Company data, Morgan Stanley Research

Analysis

- Increases in capex and dividends by the large cap oils during the FY 07 results season suggest the industry is assuming higher oil prices.
- We estimate the cash breakeven oil price for the large cap oils to be around \$75/bbl in 2008. The E&Ps are currently discounting a long-term oil price of around \$65/bbl, on our numbers.
- If the industry is assuming higher oil prices, we think there is a danger that equity markets get left behind.
- With the current tightness in energy markets, we could see another wave of consolidation in the industry with the E&Ps at the greatest risk of being acquired in our view.

Valuation

- E&Ps are trading at a 30% discount to our base case NAVs, assuming the current forward curve. The de-rating has been driven by continued market uncertainty and a lull in exploration newsflow in the sector.
- Fundamentals remain strong, the medium-term outlook for commodity prices remains very attractive and exploration activity levels are picking up.

Catalysts

- Short-term drilling newsflow is focused on Dana, Tullow and Soco.
- Dana – we expect four wells to be drilled in Q1 08. Unrisked, these prospects could be worth 650p/share; we have 125p/share risked in our NAV.
- Tullow is currently drilling the Odum well (unrisked 20p/share) and Ngassa (unrisked 220p/share). We assume 48p/share risked in our NAV for these wells.
- Soco should complete drilling on Prospect "E" in February and will then test the well. The upside potential could be around 1500p/share unrisked, we assume 650p/share risked in our NAV.
- Expect a full update on progress in India for Cairn with its full year results on 31st March.

UK E&P Informer – 1st Edition: Looking at M&A Scenarios

Sector performance remains volatile along with other high beta names in the market. However, ahead of a pick-up in exploration activity and with the sector discounting an oil price of \$65/bbl, compared to the current forward curve of \$90/bbl, we see current levels as an attractive entry point for investors into the sector.

Our top pick is Tullow, which has the best near-term drilling catalysts among the explorers. We also see Cairn as fundamentally undervalued. Greater confidence over the next few months that Cairn will deliver first oil from Rajasthan by the end of 2009 should see a re-rating in the shares, in our view. Dana moves down our order of preference as we expect the results of the higher impact wells in Dana's campaign (Rinnes and West El Burullus) to be delayed until April. This is due to a further delay in the arrival of the rigs for these wells.

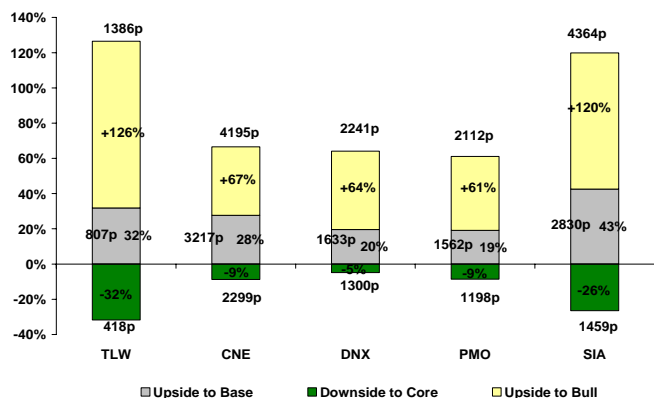
Looking at potential for M&A

With the industry taking a more positive view on oil prices than equity markets, the risk of M&A has increased in the sector. We have looked at sector valuations in two ways: using the forward curve and assuming a "bid scenario".

(1) On the forward curve...30% upside potential

We see around 30% upside for the group running our NAVs on the current forward curve of around \$90/bbl. Putting it another way, the shares are trading close to their core values and therefore prices imply no value for the future exploration programmes of these companies. On this basis, we see future share price performance for the sector heavily skewed to the upside.

Exhibit 5
UK E&Ps – NAVs on the forward curve



Source: Morgan Stanley Research estimates

(2) On our "bid scenario"...25% upside

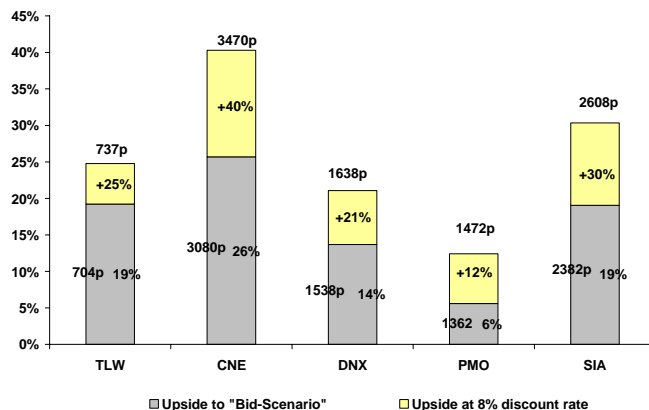
We have run valuations for the group on what we believe would be a viable "bid scenario". This scenario makes the following assumptions:

- Oil price: we use the forward curve for the first four years and then \$70/bbl long-term – a reasonable price deck assumption currently used in the industry to assess M&A deals, in our view;
- Increased probability of achieving higher recovery rates at existing fields from enhanced oil recovery. As evidenced by Eni's bid for Burren, it appears the industry is prepared to pay more for the upside achieved through enhanced oil recovery techniques than is discounted by equity markets. We have therefore increased our risk factors for these programs in our NAVs for the group by 50%; and
- 10% discount rate

We see around 20-25% upside to our bid scenario NAVs. The largest upside potential comes from Cairn, Soco and Tullow.

Taking it one step further, if we were to assume a slightly lower discount rate of around 8% (which we think is a reasonable assumption for the larger integrateds or NOCs), we would see around 30% upside to the sector — in line with our valuations run using the forward curve.

Exhibit 6
Upside to our base NAVs on our "bid scenario"



Source: Morgan Stanley Research estimates

Industry more bullish than the market

We believe the longer that these stocks continue to trade at significant discounts to our base case valuations, the more likely that we will see a “grab for assets” in the sector.

With access to resources becoming more difficult and in light of new competition from national oil companies internationally, the opportunity to acquire companies with existing asset bases and exploration upside at reasonable valuations might be too hard to resist. We see companies with producing assets or high quality assets close to production as more attractive to acquirers. The sale by Soco of its Yemen assets and Tullow’s sale of its stake in the M’Boundi field in Congo highlight the prices that NOCs are prepared to pay for high quality assets with current production.

Moving Parts – Changes to NAVs and Earnings

We have made a few changes to our NAVs and earnings in light of recent newsflow in the sector:

- **Tullow:** Our base case NAV moves to 762p/share from 768p/share. We have incorporated the sale of its 11% stake in M’Boundi for \$435m. The deal multiple was around \$15/bbl, on our 2P reserve estimate of around 30m bbls, which assumed a higher recovery rate from the field than Tullow but broadly in line with Burren’s estimates. Tullow only booked 19m bbls of 2P reserves from the M’Boundi field. We have subsequently reduced the company’s net debt position in our NAV from \$1bn to \$480m, incorporating the sale of its M’Boundi stake and receipt of proceeds from the sale of Tullow’s interest in the Ngosso field in Cameroon (around \$55m).

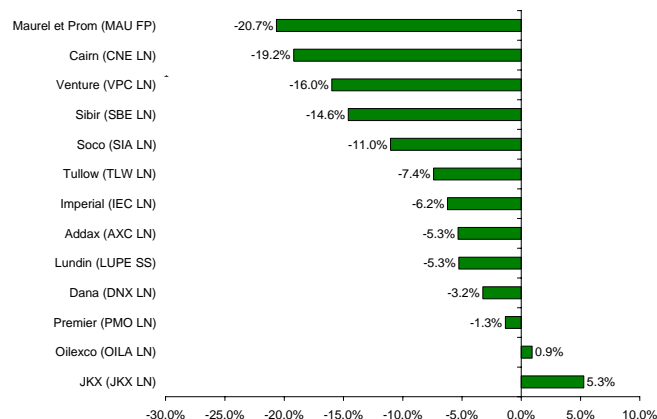
- **Dana:** Our base case NAV moves down to 1528p/share from 1544p/share. This reduces our price target from 1545p to 1530p. The Bjorn exploration well on production license PL 311 was dry and will be plugged and abandoned, according to the Norwegian Petroleum Directorate. Rocks with the expected thickness and reservoir qualities were found, but they were all water-bearing. We had 16p/share risked in our NAV for Bjorn.

- **Cairn:** We have adjusted our financials following the trading statement in January. We have reduced our 2007e EPS to 7.3p from 15.2p due to lower than expected production and higher costs at the Sangu field in Bangladesh. Cairn reported 2007 group production of 19.8k boe/d vs our estimate of 22.1k boe/d.

Sector Performance

Exhibit 7

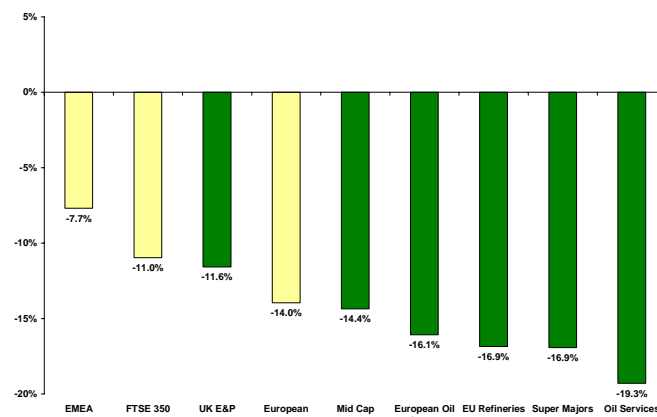
UK E&Ps: YTD stock performance (in \$ terms)



Source: Morgan Stanley Research, Datastream

Exhibit 8

Energy sub-sector YTD performance (in \$ terms)

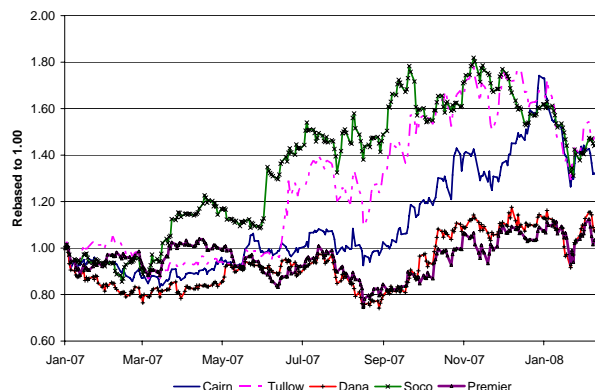


* Excluding Emerging Europe

Source: Morgan Stanley Research, Datastream

Exhibit 9

UK E&Ps – Relative performance since 2007



Source: Morgan Stanley Research, Datastream

Part I – Exploration and Appraisal Activity

Exhibit 10

UK E&Ps: Short-term Exploration Activity & Other Key Catalysts

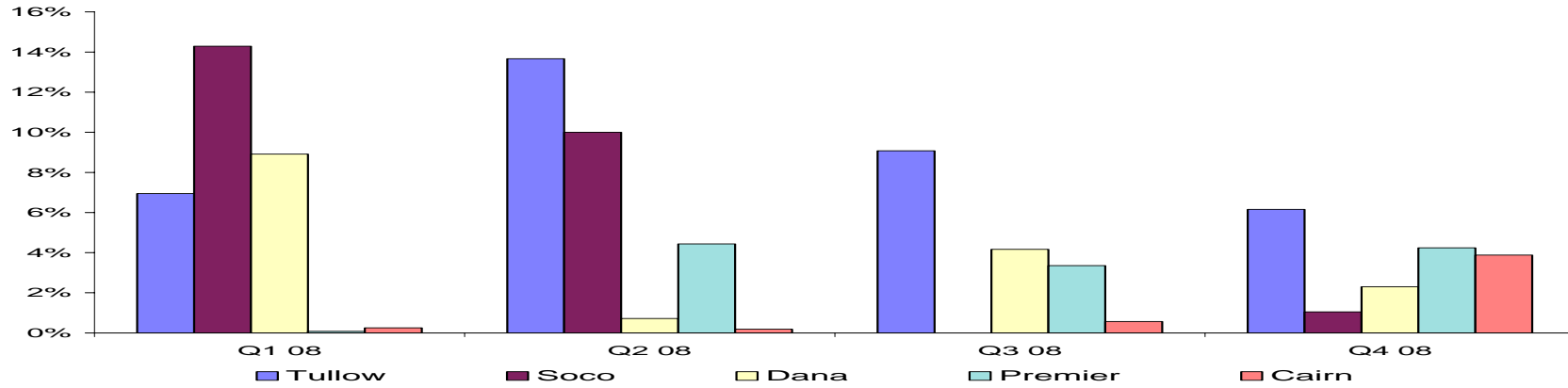
	Rating	Original Timing	Revised Timing	Country	Prospect Name	Company Interest	Co int. unrisked Reserves m boe	MS Risk Factor	Risked value p/share	Risked value as % base	Unrisked value p/share	Next Results/ Other catalysts
Tullow Oil BLOOMBERG: TLW LN REUTERS: TLW.L	Overweight-V Price Target 770p	mid-Feb-08	mid-Feb-08	Ghana	Odum	23%	21	20.0%	4	0.5%	21	12 March - Full Year Results
		end-Feb-08	end-Mar-08	Uganda	Ngassa	100%	343	20.0%	44	5.8%	219	
		Mar-Jul 08	Mar-Jul 08	Ghana	Mahogany Appraisal - 3-5 wells	~35%	228	40.0%	84	11.0%	211	
		Mar-Aug 08	Mar-Aug 08	Uganda	Block 2 Campaign - 5 wells	100%	178	20.0%	23	3.0%	114	
		Apr-Jun 08	Apr-Jun 08	India	4 well program	50%	63	16.7%	14	1.8%	83	
		Jun-08	Jul-08	Uganda	Kingfisher-2	50%	75	20.0%	10	1.3%	48	
Soco International BLOOMBERG: SIA LN REUTERS: SIA.L	Overweight-V Price Target 2780p	Jan-08	Feb-08	Vietnam	Prospect "E" - Upper interval	23.8%	55	100.0%	324	11.7%	324	Q2 08 - CNV (Vietnam) field start up
		Jan-08	Feb-08	Vietnam	Prospect "E" - Lower interval	23.8%	208	30.0%	369	13.3%	1231	
		Mar-08	Apr-08	Vietnam	Prospect "E-South"	23.8%	142	20.0%	278	10.0%	842	Q1 08 - Progress on TGT field commerciality discussions
Dana Petroleum BLOOMBERG: DNX LN REUTERS: DNX.L	Overweight-V Price Target 1530p	Jan-08	Feb-08	UK	Morgan	35.0%	4	20.0%	3	0.2%	15	End-February - Trading Update
		Feb-08	Feb-08	UK	Scolty	60.0%	4	20.0%	10	0.6%	49	
		Feb-08	End-Mar-08	Egypt	West El Burullus	50.0%	12	13.0%	7	0.5%	56	End- March - Full Year Results
		Feb-08	Apr-08	UK	Rinnes (& sidetrack)	64.8%	54	20.0%	105	6.8%	527	
Premier Oil BLOOMBERG: PMO LN REUTERS: PMO.L	Overweight-V Price Target 1500p	Mar-08	Mar-08	Egypt	NW Gemsa	10.0%	2	17.0%	1	0.1%	5	13 March - Full Year Results
		Mar-08	Mar-08	Philippines	Monte Cristo	21.0%	4	13.0%	1	0.1%	10	H1 08 - Ratna - FDP?
		Mar-Aug 08	Apr-Aug 08	Vietnam	4 well program	37.5%	67	15.0%	74	5.0%	491	
Cairn Energy BLOOMBERG: CNE LN REUTERS: CNE.L	Overweight-V Price Target 3150p	Feb-08	Feb-08	Bangladesh	Hatia	37.5%	50	12.5%	8	0.3%	65	31 March - Full Year Results

Source: Company data, Morgan Stanley Research

Exploration and Appraisal Activity (cont...)

Exhibit 11

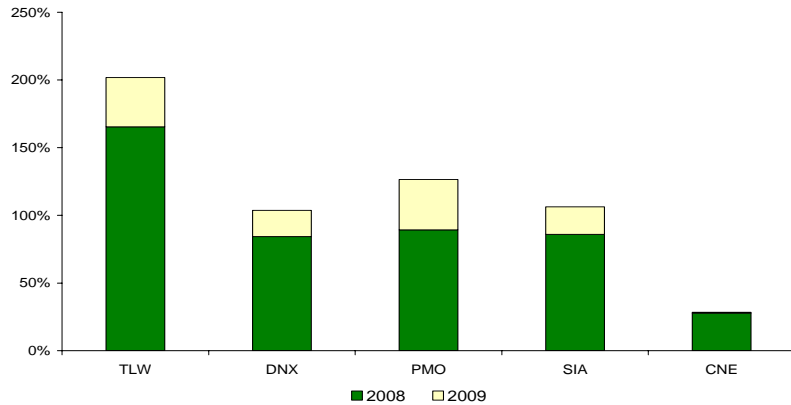
UK E&Ps: Risked exploration activity in 2008 as a percentage of base case NAV



Source: Morgan Stanley Research estimates

Exhibit 12

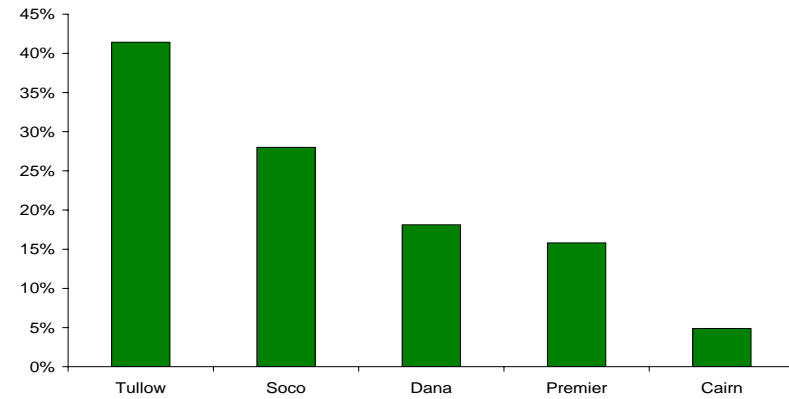
Unrisked exploration as a percentage of share price



Source: Morgan Stanley Research estimates

Exhibit 13

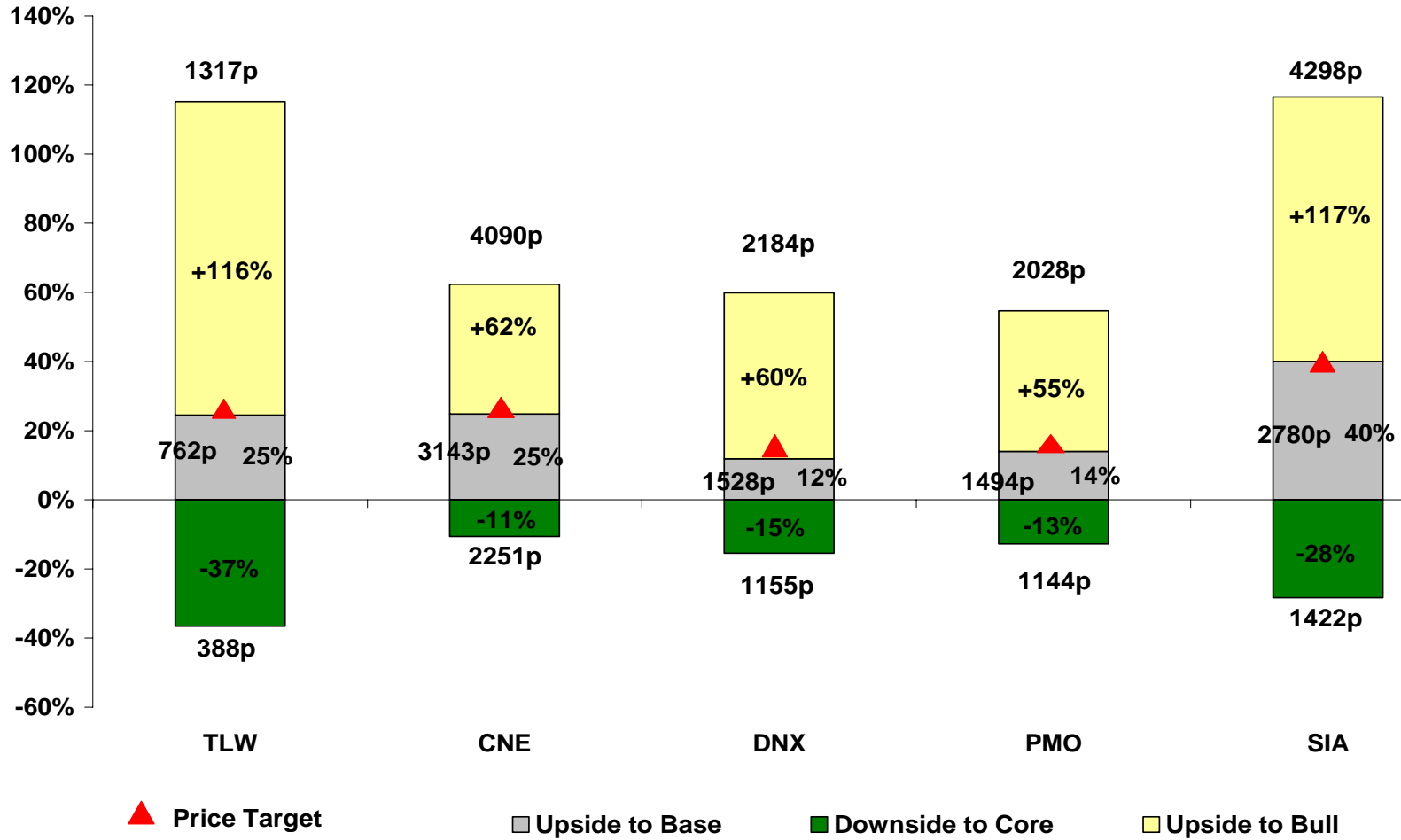
Risked exploration as a % of MS base case NAV



Source: Morgan Stanley Research estimates

Part II - Valuation

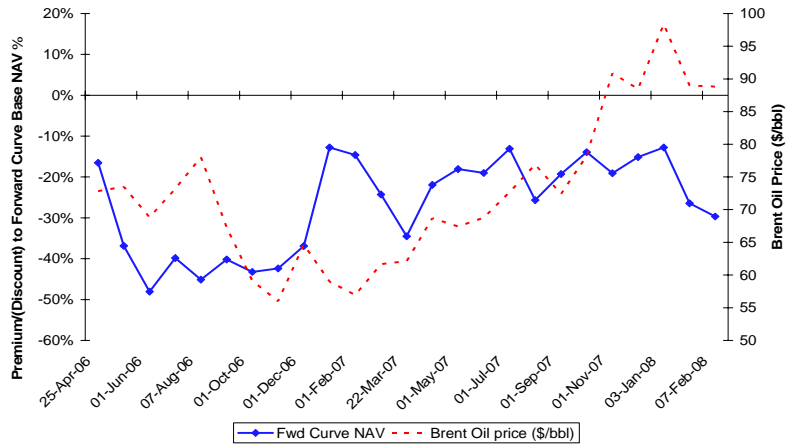
Exhibit 14
UK E&Ps: Risk-reward remains skewed to the upside



Source: Morgan Stanley Research estimates

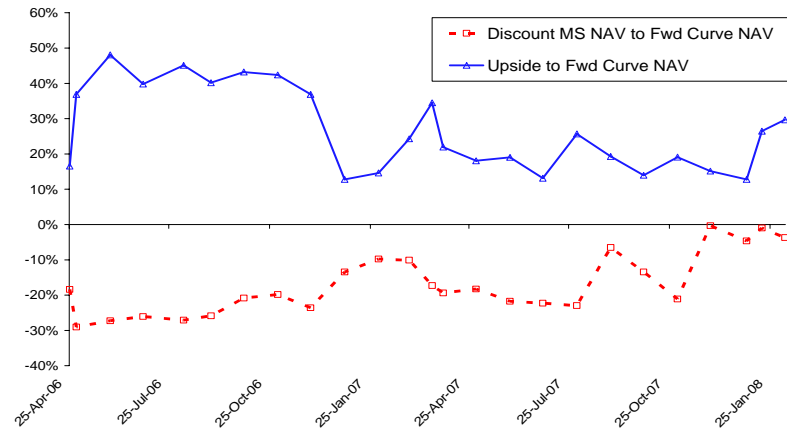
Valuation Analysis (cont...)

Exhibit 15
UK E&Ps: Premium / (Discount) to forward curve NAV %



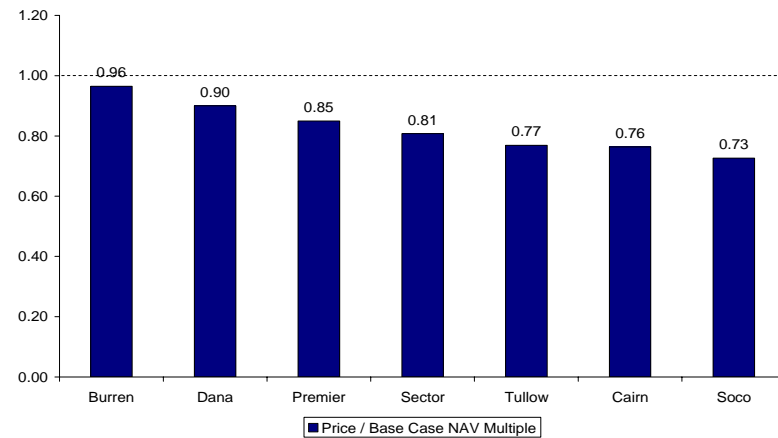
Source: Morgan Stanley Research estimates.

Exhibit 16
Discount between forward curve NAV and MS base case NAV



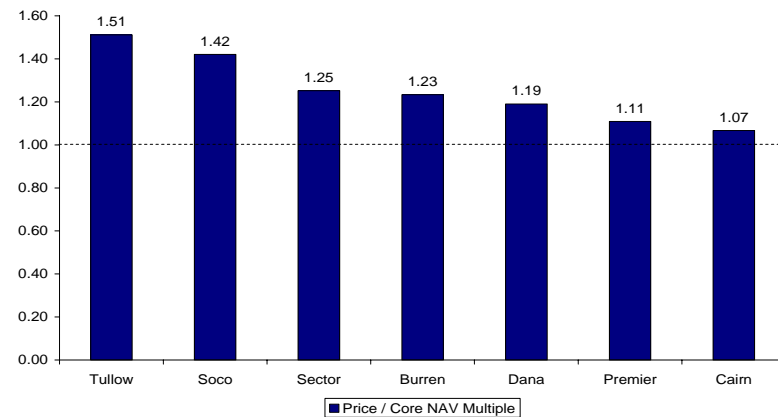
Source: Morgan Stanley Research estimates.

Exhibit 17
UK E&Ps: Share price / Base Case NAV multiples



Source: Morgan Stanley Research estimates.

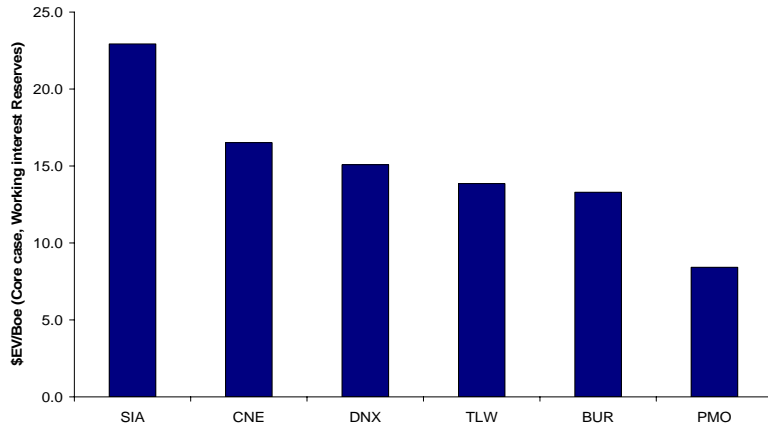
Exhibit 18
UK E&Ps: Share price / Core NAV multiples



Source: Morgan Stanley Research estimates.

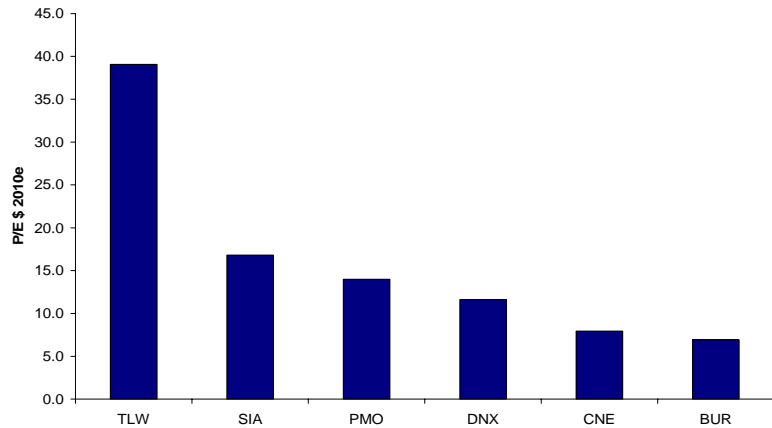
Reserve Multiples and Valuation Metrics

Exhibit 19
Reserve Multiples (\$EV/boe) – MS Core Case Reserves



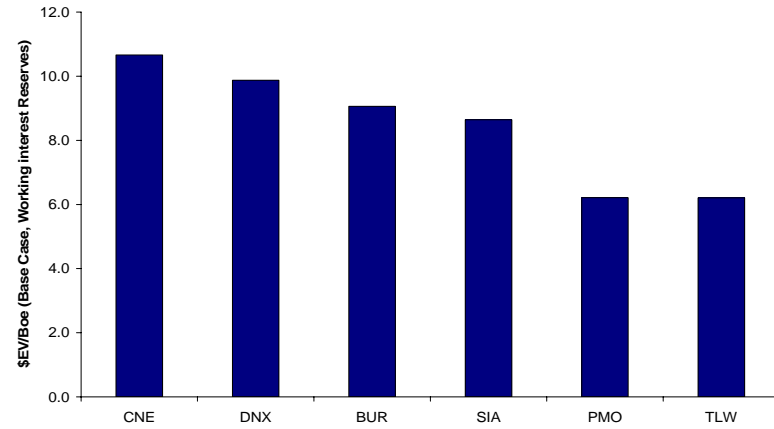
Source: Morgan Stanley Research estimates

Exhibit 20
UK E&Ps – Price / Earnings (\$), 2010e



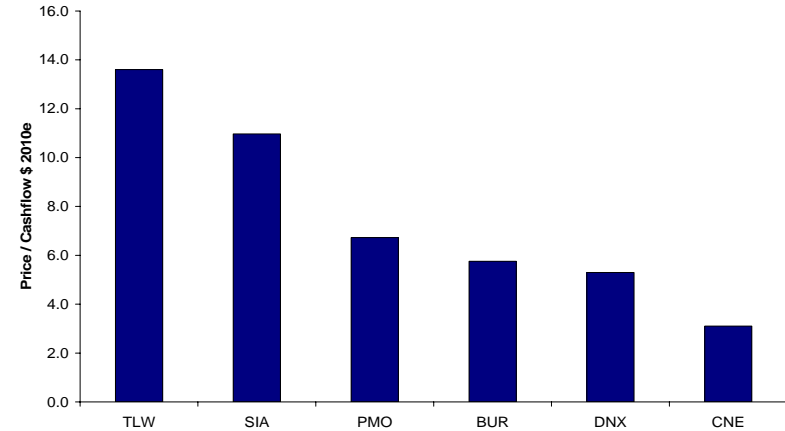
Source: Morgan Stanley Research estimates

Exhibit 21
Reserve Multiples (\$EV/boe) – MS Risked Base Case Reserves



Source: Morgan Stanley Research estimates

Exhibit 22
UK E&Ps – Price / Operating Cashflow \$, 2010e



Source: Morgan Stanley Research estimates

Valuation Table

Exhibit 23

UK E&Ps – Valuation – NAV and Multiples

Valuation	Curr	Price		Upside	Mkt Cap	NAV / Share			Upside (%) to NAV			PE \$				EV DACF \$				Price / Cashflow \$			
		Local	Target			Core	Base	Bull	Core	Base	Bull	2007E	2008E	2009E	2010E	2007E	2008E	2009E	2010E	2007E	2008E	2009E	2010E
Tullow	GBp	612	770	26%	8.8	388	762	1,317	-36.7	24.4	115.1	26.0	22.3	29.8	39.7	21.2	25.1	31.4	36.2	8.5	9.3	12.9	13.8
Cairn	GBp	2,519	3,150	25%	6.3	2,251	3,143	4,090	-10.6	24.8	62.4	NA	NA	22.0	7.7	26.4	38.6	10.8	3.5	17.3	40.0	9.8	3.0
Burren	GBp	1,232	1,230	0%	3.5	997	1,275	1,659	-19.1	3.5	34.7	7.8	8.9	8.1	6.8	2.6	3.0	2.4	1.6	6.8	7.3	6.7	5.7
Soco	GBp	1,985	2,780	40%	2.7	1,422	2,780	4,298	-28.4	40.0	116.5	NA	37.5	19.3	16.8	29.5	14.3	7.7	6.6	50.9	23.4	12.4	10.9
Dana	GBp	1,366	1,530	15%	2.3	1,155	1,528	2,184	-15.4	11.9	59.9	13.2	10.2	9.7	11.1	7.4	6.2	5.2	5.1	4.9	5.3	4.8	5.1
Premier	GBp	1,339	1,500	12%	2.3	1,144	1,494	2,028	-14.6	11.6	51.4	22.6	20.0	21.1	14.0	5.5	5.4	5.8	4.7	6.8	8.2	8.3	6.8
UK E&P sector				27%	25.8				-23.3	21.1	81.2	28.9	35.7	15.1	10.4	9.7	10.0	8.1	5.5	9.3	10.6	8.4	5.8

e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Exhibit 24

UK E&Ps – Valuation and Operational Metrics

Valuation	Curr	Rating	2P		\$EV/boe		Production k		CAGR 06-10e	ROACE (%)				Gearing %		Div Yield \$(%)		Cash Yield %		FCF Yield \$(%)			
			2006	2006	Core	Riske	2007E	2008E		2007E	2008E	2009E	2010E	2008E	2009E	2007E	2008E	2007E	2008E	2007E	2008E	2009E	2010E
UK E&P																							
Tullow	GBp	OW-V	219.1	42.1	14.1	6.3	73.06	69.98	-3%	21.9	23.3	15.5	10.9	37.6	36.2	1.17	1.06	1.17	1.06	0.8	0.7	-2.3	-2.8
Cairn	GBp	OW-V	230.5	24.9	16.0	10.3	19.82	16.82	41%	-	1.8	22.7	59.3	-97.2	-13.4	-	-	-	-	-3.9	-10.1	-2.9	21.8
Burren	GBp	EW-V	216.8	14.0	13.1	8.9	21.35	23.08	9%	47.6	43.2	41.4	44.1	-12.1	-33.3	2.03	1.79	2.03	1.79	0.5	8.5	9.7	12.5
Soco	GBp	OW-V	160.6	20.4	22.9	8.6	6.42	15.81	44%	9.7	14.8	21.4	20.8	37.3	44.8	-	-	-	-	-13.7	-10.8	-0.1	5.2
Dana	GBp	OW-V	130.6	17.9	14.4	9.6	33.86	50.96	27%	20.7	20.2	18.1	13.6	19.7	12.8	-	-	-	-	5.8	2.0	1.8	-0.2
Premier	GBp	OW-V	152.1	14.4	8.5	6.3	35.66	38.96	9%	9.8	19.5	13.0	15.4	-16.2	1.8	0.00	0.00	0.00	0.00	-13.2	-8.2	-13.0	-7.3
UK E&P										17.3	19.2	21.3	28.8	-1.8	13.1	0.6	0.6	0.6	0.6	-15.6	-19.5	-27.5	24.7

e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Exhibit 25

UK E&Ps – Earnings and Performance

Valuation	Curr	Adj EPS (Reporting Currency)				EPS \$Growth - adj. (%)				52W		Absolute \$(%)				Absolute Local (%)				Rel. MSCI Euro Oil & Gas (%)				Rel. FTSE All Share (%)				Rel. MSCI World Oil&Gas (%)			
		2007E	2008E	2009E	2010E	2007E	2008E	2009E	2010E	Lo	Hi	1w	1m	3m	YTD	1w	1m	3m	YTD	1w	1m	3m	YTD	1w	1m	3m	YTD	1w	1m	3m	YTD
UK E&P																															
Tullow	GBp	18.1	25.6	19.1	14.4	-9.5	45.2	-25.1	-24.9	3.43	6.90	2.4	6.2	-11.2	51.0	1.5	6.7	-7.4	50.6	-0.8	15.0	-2.8	46.6	1.3	10.2	1.9	63.8	-1.4	10.6	-8.9	32.7
Cairn	USc	7.3	3.0	218.6	625.0	-5.6	-3.1	284.7	181.9	15.09	30.96	3.4	-7.2	4.2	36.6	2.5	-6.8	8.6	36.2	0.2	0.5	14.0	32.6	2.3	-3.7	19.5	48.1	-0.4	-3.4	6.8	20.0
Burren	USc	221.4	269.7	295.2	351.3	28.1	21.8	9.5	19.0	7.11	12.60	0.5	0.2	0.1	39.4	-0.3	0.7	4.3	39.0	-2.6	8.5	9.6	35.3	-0.5	4.0	14.9	51.1	-3.2	4.3	2.7	22.4
Soco	USc	42.7	103.2	199.9	230.6	15.6	141.7	93.7	15.3	11.85	23.95	-0.1	-5.2	-19.4	43.9	-0.9	-4.8	-16.0	43.5	-3.1	2.7	-11.8	39.7	-1.1	-1.6	-7.6	56.0	-3.7	-1.3	-17.1	26.4
Dana	GBp	83.2	123.7	130.5	113.6	55.9	50.5	5.5	-13.0	9.04	14.68	-0.7	-1.8	-0.9	6.7	-1.5	-1.3	3.3	6.4	-3.7	6.4	8.4	3.5	-1.7	2.0	13.7	15.7	-4.3	2.3	1.6	-6.3
Premier	USc	99.8	131.5	124.7	188.9	-7.3	31.8	-5.1	51.4	9.02	14.20	4.7	1.4	9.4	8.3	3.8	1.9	14.1	8.0	1.5	9.9	19.8	5.1	3.6	5.3	25.6	17.4	0.9	5.6	12.2	-4.9
UK E&P						20.9	42.7	67.6	77.1			2.0	-0.3	-4.1	37.5	1.2	0.1	-0.1	37.2	-1.1	8.0	5.0	33.5	1.0	3.5	10.0	49.2	-1.7	3.8	-1.6	20.8

e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Part III - M&A Transaction Multiples

Exhibit 26

Selective Global M&A transactions in 2007 and 2008

Year	Qtr	Buyer	Seller	Region	Value \$m	\$EV/1P	\$EV/2P
2008	1	Woodside	Shell	Australia	399		18.73
2008	1	Sinochem	Soco International	Middle East	465		21.83
2008	1	KNOC	Tullow Oil	Africa	435		20.42
2007	4	Eni	Burren Energy	Global	3,508	37.95	15.01
2007	4	Petronas	Star Energy	Europe	510		12.07
2007	4	Revus Energy	Palace Exploration	Europe	258		17.92
2007	4	Mariner Energy	StatoilHydro	US GOM	243	25.30	18.27
2007	4	Oranje-Nassau	Devon Energy	Africa	206		20.24
2007	4	Santos	Cairn Energy	Asia	50		8.82
2007	3	TAQA	PrimeWest	Canada	5,264	31.87	23.00
2007	3	EON	Royal Dutch Shell	Europe	898		8.34
2007	3	TAQA	Pioneer	Canada	540	12.53	
2007	3	Centrica	Newfield	Europe	486		9.72
2007	3	Petronas	Woodside	Africa	418	19.67	12.61
2007	3	Dyas	Cairn Energy	Asia	90		45.42
2007	3	TransGlobe Energy	Tanganyika Oil	Africa	70	18.77	11.11
2007	3	JKX Oil & Gas	Yuzhgazenergie	Russia	50	2.60	1.37
2007	3	Cairn Energy	Plectrum	Africa	35		0.28
2007	3	Cairn Energy	MedOil	Africa	28	0.59	0.26
2007	2	Eni	Dominion Resources	US GOM	4,730	26.80	18.13
2007	2	TAQA	Pogo Producing	Canada	2,000	15.30	
2007	2	Energy XXI	Pogo Producing	US GOM	420	19.60	16.05
2007	2	Dana Petroleum	Devon Energy	Africa	308		10.27
2007	2	Dana Petroleum	Ener Petroleum	Europe	201	19.51	16.54
2007	2	Itochu	Range Resources	US GOM	155	23.25	
2007	1	Eni	Maurel et Prom	Africa	1,434		10.75
2007	1	TAQA	Talisman	Europe	550	25.73	15.37
2007	1	DONG	ConocoPhillips	Europe	300		8.00
2007	1	Burren Energy	Eni	Africa	154		10.80
2007	1	Kuwait Foreign Petroleum	BG Group	Africa	128	22.63	14.69
2007	1	Stratic Energy	Grove Energy	Europe	99	9.26	6.54
2007	1	Premier Oil	Hess	Europe	60		4.73

Source: Company data, Morgan Stanley Research

Exhibit 27

Regional Transaction Multiples (\$/boe)

	Implied 1P Value (US\$/boe)	Implied 2P Value (US\$/boe)
US M&A	14.88	10.04
UK/Europe M&A	12.38	8.91
Canadian M&A	21.51	20.28
Russian/FSU M&A	5.18	3.63
Latam M&A	7.92	5.17
Asia M&A	10.60	7.59
Africa M&A	17.07	10.01
RoW M&A	NM	9.31

Source: Morgan Stanley Research

Exhibit 28

Recent Premia Paid in M&A transactions

Announce Date	Transaction (Buyer / Seller)	(\$mm) Deal Size	Premium 5 Day	Premium 30 Day
14-Dec-07	Salamander / GFI O&G	79	53%	14%
30-Nov-07	ENI / Burren	3,569	14%	5%
24-Sep-07	TAQA / PrimeWest	3,882	25%	27%
07-Sep-07	Cairn / MedOil	25	19%	11%
07-Sep-07	Cairn / Plectrum	47	23%	26%
23-Aug-07	Venture / WHAM	29	62%	62%
01-Aug-07	Citadel / Rally	843	18%	22%
17-Jul-07	Plains Expl / Pogo	3,497	18%	10%
12-Jun-07	Dana / Ener	36	47%	33%
06-Feb-07	Stratic / Grove	97	24%	17%
12-Nov-06	Dana Gas / Centurion	925	11%	66%
25-Sep-06	Tullow / Hardman	1,101	64%	44%
20-Oct-05	Talisman / Paladin	2,133	19%	20%
	Average (%)		29	28

Source: MergerStat, Morgan Stanley Research

Part IV - Macro Summary

Exhibit 29

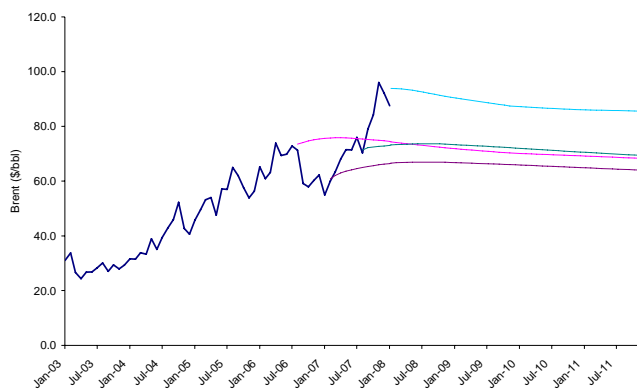
Morgan Stanley Commodity and FX Forecasts

	2005	2006	2007	2008e	2009e	2010e	2011e
Commodity Assumptions							
WTI (\$/bbl)	56.54	66.02	72.16	80.00	82.00	85.00	87.00
Brent (\$/bbl)	53.72	65.27	70.38	79.00	81.00	84.00	86.00
UK gas (p/therm)	36.98	43.16	27.67	38.00	41.00	45.00	50.00
FX Assumptions							
USD: GBP	1.83	1.84	2.00	2.05	2.05	2.05	2.05

e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Exhibit 30

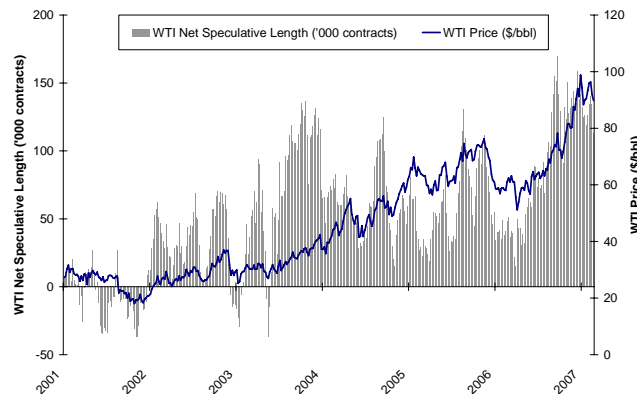
Brent Crude Futures (\$/bbl)



Source: Morgan Stanley Research estimates, Bloomberg

Exhibit 31

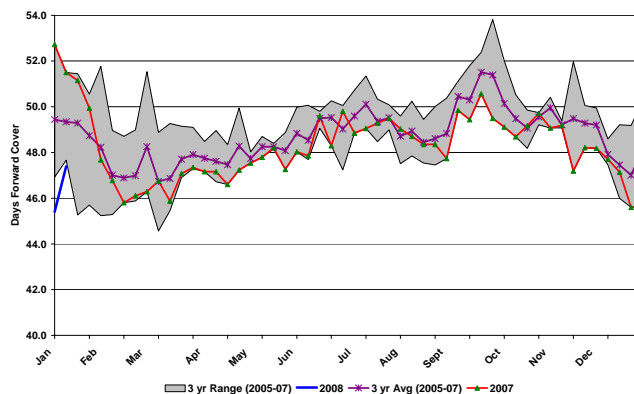
WTI Crude Oil Net Speculative Positions



Source: Morgan Stanley Research, CFTC, NYMEX

Exhibit 32

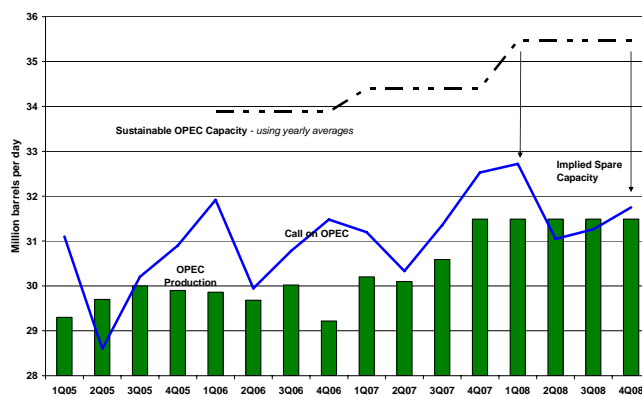
US Total Oil Forward Days Cover (ex. SPR)



Source: Norwegian Energy

Exhibit 33

Implied OPEC Spare Capacity



Source: Morgan Stanley Research estimates, IEA.

Exhibit 34

Morgan Stanley Crude Oil Supply/Demand Forecast

(m b/d)	2004	2005	2006	2007E	2008E
Demand					
OECD	49.5	49.5	49.2	49.4	49.6
Non-OECD	32.9	34.1	35.1	36.5	37.6
Total Demand	82.5	83.6	84.3	85.8	87.2
Supply					
OECD	21.3	20.3	20.0	19.8	19.5
Non-OECD	28.8	29.9	30.8	30.3	31.6
OPEC (incl. Iraq)	32.9	34.2	34.3	35.4	36.4
Total Supply	83.0	84.4	85.1	85.5	87.5

e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Price Target Methodology

Exhibit 35

Summary of UK E&P Ratings and Price Targets

Company	Price (GBP)	Rating	Price Target	Upside %
Tullow Oil	600	Overweight-V	770	28%
Cairn Energy	2,461	Overweight-V	3,150	28%
Burren Energy	1,230	Equal-weight-V	1,230	0%
Soco International	1,983	Overweight-V	2,780	40%
Dana Petroleum	1,333	Overweight-V	1,530	15%
Premier Oil	1,339	Overweight-V	1,500	12%

Source: Morgan Stanley Research estimates

Our price targets for the UK E&Ps are derived from a combination of our net asset valuation and more subjective factors. Our base net asset valuation is essentially the discounted cash flows on a field-by-field basis and our best estimate of risk upside. At any given oil price, we expect E&P shares to trade somewhere between a core valuation and a bull case scenario. The premium (or discount) to the base value is determined mostly by: 1) by short-term oil prices and 2) levels of M&A activity in the industry and exploration activity. Within this framework, individual companies are likely to trade at different premium/discounts depending on specific stock characteristics. These are as follows:

- the potential for upgrades to existing reserves (commercial and technical);
- the potential for appraisal upside from additional discoveries; and
- exploration activity and news flow intensity.

Risks to price targets

Exploration is a high-risk business. Putting this together with uncertainty over short-term commodity prices, we assign a volatility flag to our ratings for the UK E&P stocks. The following are key drivers for the sector that may lead the shares to under- or outperform our assumptions:

Downside: 1) Sharp fall in commodity prices; 2) disappointing exploration or appraisal;. 3) increases to capex/delays to development projects; 4) increased political and fiscal risks.

Upside: 1) Continued increased in short- and longer-term assumptions of commodity prices; 2) better than assumed exploration success; 3) increased M&A activity in the industry.

Specific risks for TLW: On the downside: 1) disappointing drilling results from the Ghana, Uganda or India; 2) operational problems at existing fields; 3) weakness in the UK gas price.

On the upside, we see risks from materially better success from the drill bit.

Specific risks for Dana: On the downside: 1) disappointing drilling results from UK, Norway and Egypt; 2) operational problems on existing fields in the UK portfolio; 3) weakness in the UK gas price. On the upside, we see risks from materially better success from the drill bit.

Specific risk for Cairn: On the downside: 1) delays in the timetable for development of existing assets in Rajasthan; 2) disappointing appraisal upside from Rajasthan. On the upside, we see risks from materially better success from the drill bit in the KG basin.

Specific risks for Soco: On the downside, disappointing drilling results from Vietnam, Yemen and Congo. On the upside, we see risks from materially better success from the drill bit.

Specific risks for Premier: On the downside, disappointing drilling results from Vietnam, Indonesia and Pakistan. Delays on development targets. On the upside, we see risks from materially better success from the drill bit.

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(as of January 31, 2008)

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	Count	% of Total	Count	% of IBC	Total % of Rating Category
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Equal-weight/Hold	986	41%	308	42%	31%
Underweight/Sell	346	15%	98	13%	28%
Total	2,380		739		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

25 Cabot Square, Canary Wharf
London E14 4QA
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

Three Exchange Square
Central
Hong Kong
Tel: +852 2848 5200

Industry Coverage: Oil & Gas

Company (Ticker)	Rating (as of)	Price (02/18/2008)
Michael Alsford		
Burren Energy (BUR.L)	NA-V (01/11/2008)	1,230p
Cairn Energy (CNE.L)	O-V (02/04/2008)	2,516p
Dana Petroleum (DNX.L)	O-V (08/07/2006)	1,363p
Premier Oil (PMO.L)	O-V (11/15/2007)	1,373p
SOCO International (SIA.L)	O-V (03/22/2007)	2,009p
Tullow Oil (TLW.L)	O-V (01/15/2007)	614p
Andrew Bowman		
ERG (ERG.MI)	E (06/28/2006)	€11.49
Galp Energia (GALP.LS)	O (02/23/2007)	€16.78
Neste Oil (NES1V.HE)	O (01/09/2008)	€21.26
Petroplus (PPHN.VX)	O-V (01/15/2007)	SFr76.85
Saras (SRS.MI)	E (06/28/2006)	€3.41
Theepan Jothilingam, CFA		
Eni SpA (ENI.MI)	E (03/05/2007)	€22.71
Norsk Hydro AS (NHY.OL)	NA (12/18/2006)	NKr74.5
OMV AG (OMVV.VI)	++	€48.77
Repsol-YPF (REP.MC)	E (01/09/2008)	€22.59
Sasol (SOLJ.J)	O (06/14/2007)	ZAc37,800
StatoilHydro (STL.OL)	O (09/26/2007)	NKr156.8
Neil W Perry		
BG Group (BG.L)	O (09/13/2006)	1,159p
BP plc (BP.L)	E (09/21/2006)	569p
Royal Dutch Shell (RDSa.L)	NA ()	1,806p
Royal Dutch Shell (RDSb.L)	E (06/27/2007)	1,774p
TOTAL (TOTF.PA)	O (03/15/2007)	€50.2
Matthew J Thomas		
PKN Orlen (PKNA.WA)	E (10/23/2006)	PLN40.1

Stock Ratings are subject to change. Please see latest research for each company.